

ANALYSIS OF PRACTICE FAMILY-OWNED COMPANIES IN REPUBLIC OF UZBEKISTAN

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Abstract. Family Business is considered the world's oldest business institution and a special form of organization of activity, with own history and many examples of success, among which the most famous are large family corporations and holdings. At the same time, it is important to study the features and trends in the development of this form of organization in small and medium-sized business. This phenomenon is currently in the initial stages of research; many definitions are not established and are debatable. For a business to be successful, it must be family-owned. However, family business is defined differently in different sources and by different scholars. According to Demassis et al. a business in which multiple members of the same family have influence on the firm's strategic actions and directions. In another definition a family business is defined as any business in which a majority of the ownership or control lies within a family, and in which two or more family members influence the direction of the business, through ownership, management, or both.

Keywords: family-owned companies, business, GDP, employment, income, family enterprise, entity, job, profit.

Introduction

The corporate governance is now playing a key role in economic and social development of a country, and it has began to significantly matter for both industrialized and most of the developing countries. Year by year there increase a number of researches, books and papers on corporate governance problems which call upon to improve the state of corporate governance in the jurisdictions or in the world as a whole, and to bring it to the generally accepted international standards and principles. Current background of corporate governance in Uzbekistan shows that almost all the production enterprises are established under a principle of joint-stock companies but these joint-stock companies in smaller extent function in accordance with their status and they almost do not make use of their rights. The mechanisms needed for the joint-stock companies to function in line with their market status are weakly sprung into action. This problem also comes from the statement of Uzbekistan's President in his speech to Parliament titled "The Concept of the Further Deepening of the Democratic Reforms and the Formation of the Civil Society in the Country" (Karimov, 2010) saying that new Company Law should be enacted

and the powers, rights and responsibilities of the corporate governance and control bodies should be clearly specified in it [1]. Uzbekistan's corporate governance model is increasingly modeled on the German system, featuring a two-tier board structure with a supervisory board and an executive board. Reducing poverty and ensuring high levels of employment and income of the population shows that the initiative aimed at family business is aimed not only at providing employment, but also at equal distribution of income, with In this regard, socially stable factors of economic development are becoming increasingly important in improving the quality. The most common way is to divide the enterprises of family households by size taking into account the signs of marriage and kinship,cohabitation, common budget and joint farming [2].

The number of family-owned enterprises in Uzbekistan is steadily increasing, reflecting the country's ongoing support for small business development. As of July 1, 2025, Uzbekistan had 38,234 registered family enterprises-marking a growth of 1,969 since the beginning of the year, The Caspian Post reports via Uzbek media. The trade sector continues dominating, with 15,264 family businesses operating in retail and wholesale markets. Industry ranks second with 8,703 enterprises, followed by 7,303 involved in accommodation and food services.The agricultural, forestry, and fishing sectors host 2,649 family-run enterprises, while 646 operate in healthcare and social services. Other areas of activity include transportation and storage (354), construction (299), and information and communications (245). An additional 2,771 enterprises are spread across various other sectors.[3].

Literature Review: Family-owned enterprises have increasingly attracted scholarly and policy attention in Uzbekistan due to their strong influence on private sector growth and national economic performance.Early analyses of corporate governance in Uzbekistan, such as the study by Bektemirov and Rahman (2015) on The Corporate Governance in Uzbekistan: A Special Focus on the Board’s Supervisory Role Compared with German Practice (ResearchGate, 2015), emphasized that the adaptation of modern governance frameworks is essential for improving transparency and long-term performance of family and closely held companies. Their findings highlighted the importance of institutional reforms to create efficient supervisory boards, which could enhance the stability and sustainability of family-owned firms within emerging markets.

From a legislative perspective, the Law of the Republic of Uzbekistan “On Family Entrepreneurship” (April 26, 2012) established the legal basis for family-owned enterprises, defining their rights, internal structure, and economic functions. This was later consolidated under Law No. ZRU-327 “On Family Entrepreneurship”, ensuring their legal status as participants in the private sector. Additional regulatory frameworks, such as Decree No. UP-21 (February 10, 2023) and Decree No. PP-39

(January 31, 2023), further improved the classification of business entities and provided mechanisms for tax incentives, access to credit, and state-supported family business programs.

Official data reinforce the significance of family enterprises to the national economy. According to UzDaily (2024), small entrepreneurship — which includes most family-owned companies — accounted for 51.2% of Uzbekistan's GDP in 2023 (UzDaily, 2024). Moreover, as of August 2025, there were 37,816 registered family businesses, indicating steady growth and diversification across regions (UzDaily, 2025). These data confirm that family-owned firms are key contributors to both GDP formation and regional socio-economic development.

Reviewed literature and legislative framework demonstrate that family-owned enterprises in Uzbekistan have transitioned from informal, household-based activities to structured, legally recognized economic actors. The combination of cultural tradition, entrepreneurial adaptation, and supportive state policy has positioned them as essential contributors to GDP growth, employment, and sustainable development. Yet, as several studies emphasize, continued modernization, governance reform, and access to finance are critical for enhancing their long-term economic impact.

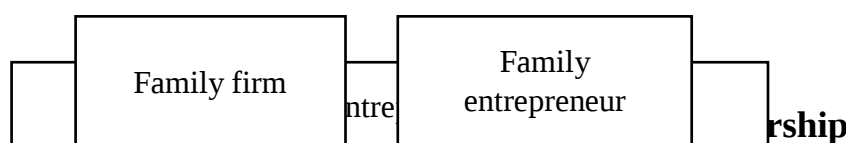
Methods

While searching this scientific work various methods are used. Financial statement, market data, annual reports. These results obtained from research which were shown in economic books and sites.

Statistics were widely used to compare the financial and non-financial data in order to clarify the research. At the same time, mixed methods study is also used to combines both quantitative and qualitative approaches. The use of methods in the field of service research increases its practical value.

Results

Family business is considered as one of the most important matters in Uzbekistan. In order to develop this area, the Law on “Family entrepreneurship” entered into force in the Republic of Uzbekistan on the 26th, 2012. According to the description of this Law, the term “family business” has been referred to as “family entrepreneurship” in Uzbekistan and family entrepreneurship is an initiative made by family members with their own risk and liability so as to make profit. [4].



This figure illustrates two types of family entrepreneurship by Law on “Family entrepreneurship” of the Republic of Uzbekistan. Family firm is when:

- a legal entities registered as “family firm”;

- entity opened in order to implement entrepreneurial activity willingly, small businesses launched by founders of family firm;
- equal to the status of small businesses;
- entity established by not less than two founders and the total number of employees cannot be more than the average annual number of employees allowed to be employed by small businesses by law;
- 100% of firm's ownership is possessed by founders (the head of the family, his wife (her husband) their children and grandchildren, parents, and other relatives (children and grandchildren husbands (wives), half and step- brothers and sisters, their husbands(wives) and children, uncle and aunt);
- based on the founders' personal labor;
- it is not allowed to produce products that require excise tax and tax imposed on natural resources; (The Law of "Family entrepreneurship" 2012).

On the other hand, family entrepreneur is when:

- non-legal entity form of family entrepreneurship;
- A member of the family is registered as an sole-entrepreneur;
- The owner has a right to recruit other members of the family;
- Fixed tax-payer (according to the form of business activity);

Family business may operate and sell their products in the place where they live. Such an opportunity will facilitate the process of initiating and efficiently continuing family entrepreneurship. Furthermore, this will diminish the cost of production and services. Based on property rights, it is not required of participants of family business to convert their living places into locations which are not designed for habitation with a view to using them for family business activities, with the exception of some categories of activities specified on legal documents. Family company is liable, according to the terms and conditions, for the cost of communal infrastructural bills (electricity, water supply, sewerage, gas and heat supply) involved in the production of goods and services if family business operates in the place where family members live. [5].

Analysis

For the development of family business, the state provides various benefits. For example, the allocation of preferential microcredits; promoting the development of handicrafts by leasing premises, allocating and arranging special places; organization of a network of specialized shops and kiosks for trade in products and goods produced by artisans; providing practical assistance in providing handicrafts with local raw materials, materials, tools and means of small-scale mechanization, holding exhibitions of handicraft products, creating the necessary conditions for teaching young people handicraft skills, etc. According to the Decree of the President of the Republic of

UzbekistanNo. PP18“On additional measures to support family business development programs” datedJanuary 25, 2023 fromFund for Reconstruction and Development to finance projects under the family business development programs of JSCB "Agrobank", JSCB "Microcreditbank" and JSC "Hulk Banks" will allocate funds on the basis of a separately approved allocation of funds in the equivalent of 300 million US dollars for a period of 7 years, including a three-year grace period at a rate of 10 percent. Family entrepreneurship has become one of the tools to increase employment and welfare of the population, indicators of its development are included in the forecast parameters of territorial programs for creating new jobs. The minimum number of participants in a family business must be at least two people.

Table 1. The number of family enterprises by regions¹

Region name	2021	2022
Samarkand region	9041	10499
Fergana region	5778	6608
Surkhandarya region	5400	5847
Khorezm region	4682	5488
Tashkent region	4540	5073
Navoi region	4010	4157
Tashkent city	3458	3795
Bukhara region	3320	3450
Andijan region	2919	2962
Republic of Karakalpakstan	1932	2172
Jizzakh region	1661	2140
Namangan region	1165	1337
Syrdarya region	354	356

According to the table the largest number of family businesses (18% of the total) falls on the Samarkand region. According to the author, this is primarily due to the fact that historically the Great Silk Road passed through the territory of this region, and secondly, since the times of the former Soviet Union, tourism has been developed in this territory, which made it possible to develop various handicraft industries, the service sector (public catering places , hotels, transport services, etc.). Thus, the traditional culture and social values, the accumulated experience, the availability of markets, the availability of resources have allowed the region to create favorable conditions for the development of family business.

¹ Agency of Statistics of the Republic of Uzbekistan

In the Republic of Uzbekistan, family enterprises can only be organized in the form of small enterprises, which is clearly stated in the Law on Family Business. However, the Decree of the President of the Republic of Uzbekistan No. UP-21 “On measures to further improve the criteria for dividing business entities into categories, as well as tax policy and tax administration” dated February 10, 2023, states that if a family business earns from 10 billion soums during the year up to 100 billion soums, then it should be classified as medium, and if it earns more than 100 billion soums, it should be classified as a large enterprise. [6] There is a mismatch in the understanding and definition of family businesses. The development of family business has been put on the level of state programs. So in 2018, by the Decree of the President of the Republic of Uzbekistan, the program “Every family is an entrepreneur” was implemented. The program was aimed at ensuring a fundamental improvement in material conditions, significant positive changes in the quality and level of the lifestyle of the population. [7]. The organizational and legal form of family business carried out with the formation of a legal entity is a family enterprise. According to the Law “On Family Business”, a family business is a small business entity created by its participants on a voluntary basis on the basis of common property that is in the shared or joint ownership of the participants in the family business, as well as the property of each of the participants in the family business for the production and sale of goods (works, services). The activities of a family business are based on the personal labor of its members. [8].

Discussion

The influence of family-owned companies on Uzbekistan’s Gross Domestic Product (GDP) is both substantial and multidimensional. These enterprises form the backbone of the national economy, especially within the framework of small and medium-sized businesses that collectively contribute over half of the country’s GDP. Their importance lies not only in the production of goods and services but also in their ability to stimulate employment, investment, and regional development.

In Uzbekistan, family enterprises have evolved as a key driver of private sector growth since the adoption of market-oriented reforms. They dominate traditional sectors such as trade, agriculture, food processing, and craftsmanship, while also expanding into modern industries like tourism, construction, and services. The direct contribution of these businesses to GDP is evident through their active participation in value creation and domestic trade. Family firms are closely linked to household consumption, which constitutes a large share of the country’s economic output. Their daily commercial activity—whether through small retail operations, family-owned farms, or service ventures—translates into consistent and measurable additions to the national product. The influence of family businesses extends beyond direct production. By providing stable employment opportunities, particularly in rural and semi-urban

areas, they sustain household incomes and, consequently, increase domestic demand. Employment generated by these enterprises raises the purchasing power of local communities and fuels consumption-led growth, which further strengthens the GDP. Moreover, family enterprises often reinvest profits within the local economy, rather than transferring capital abroad. This circulation of income within the national borders encourages investment and supports internal financial stability, helping to build a self-reliant economic structure. [9]

Family businesses also contribute to GDP growth through their resilience and adaptability. During periods of economic instability, such as global market fluctuations or disruptions in supply chains, family-owned companies tend to maintain operations and preserve jobs, drawing upon family labor and social trust. This capacity for endurance stabilizes local economies and mitigates potential declines in GDP. Their long-term orientation and sense of responsibility toward community welfare encourage sustainable economic practices rather than short-term profit maximization.

Nevertheless, despite their notable contributions, the full GDP impact of family enterprises is not always captured in official data. A considerable number of family businesses operate informally or within microenterprise frameworks, where financial reporting is limited. This results in an underestimation of their actual economic value. Furthermore, challenges such as limited access to credit, low technological innovation, and insufficient managerial training restrict their growth potential and productivity, ultimately constraining their contribution to the national GDP. If these structural barriers were addressed, the economic output of family firms could increase substantially. [10]

Government policies have played an important role in shaping the growth of family entrepreneurship in Uzbekistan. The introduction of the Law on Family Entrepreneurship and various tax incentives have encouraged registration and formalization. These reforms not only support small business development but also help integrate family enterprises into the official economy, allowing their production to be accurately included in GDP calculations. Continued support through financial access, education, and digitalization would enable family-owned companies to scale up and participate more effectively in high-value sectors such as manufacturing and exports.

In a broader perspective, the contribution of family-owned companies to Uzbekistan's GDP is not merely quantitative but also qualitative. They contribute to the stability, inclusiveness, and sustainability of economic growth. Their operations strengthen community ties, reduce unemployment, and promote intergenerational knowledge transfer, which together foster a more balanced and resilient economy. As Uzbekistan continues its economic modernization, empowering family enterprises will be essential for maintaining a steady rise in GDP and achieving long-term national

development goals. [11]

Conclusion

Family-owned enterprises occupy a central position in Uzbekistan's economic structure and contribute significantly to the country's Gross Domestic Product. Their activities in trade, services, agriculture, and small-scale industry form the core of private sector production and employment generation. The evidence shows that small and family-run businesses collectively account for more than half of the nation's GDP, underscoring their fundamental role in sustaining economic growth. Beyond their direct contribution to output, family businesses also influence GDP through indirect channels such as employment creation, household income generation, and the stimulation of domestic demand. By operating across all regions of the country, they promote balanced territorial development and prevent excessive concentration of wealth and production in the capital region. Their flexibility and resilience in times of economic uncertainty help stabilize national output and maintain steady growth. The reinvestment of profits within the domestic economy ensures that income circulates locally, further reinforcing internal demand and GDP expansion.

However, the full economic potential of family-owned companies has not yet been realized. A considerable share of family businesses still operates informally, limiting their access to finance, innovation, and official recognition in GDP accounting. Structural challenges such as low technological capacity, limited managerial experience, and succession difficulties continue to constrain productivity. Strengthening financial inclusion, promoting entrepreneurship education, and modernizing legal and statistical frameworks are therefore essential for enhancing their contribution to GDP.

Government support, particularly through the implementation of the Law on Family Entrepreneurship and recent policy reforms, has created a more favorable environment for family business growth. Continued efforts in formalization, digital transformation, and access to capital will allow these enterprises to move from survival-based operations toward competitive and sustainable development.

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